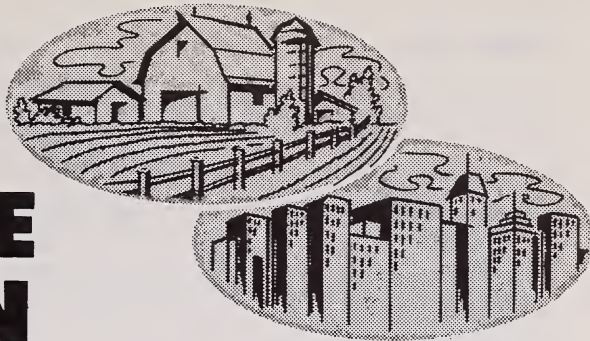


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IN THIS ISSUE

- AGRICULTURAL ECONOMIC SITUATION
- FACTORS AFFECTING FARM PRODUCT DEMAND
- FOREIGN TRADE
- CURRENT COMMODITY SITUATION

Published quarterly by
ECONOMIC RESEARCH
SERVICE

U. S. DEPARTMENT OF
AGRICULTURE

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1964			1965			
		Year	June	Mar.	Apr.	May	June	
Industrial production <u>1/ 2/</u>	: 1957-59=100	: 132	: 132	: 140	: 141	: 141	: 142	
Final products	: do.	: 132	: 132	: 140	: 139	: 140	: 140	
Consumer goods	: do.	: 131	: 132	: 139	: 138	: 138	: 138	
Autos	: do.	: 151	: 162	: 194	: 184	: 185	: 187	
Equipment, including defense	: do.	: 132	: 132	: 140	: 141	: 144	: 144	
Materials	: do.	: 132	: 132	: 141	: 142	: 143	: 144	
Construction: <u>3/ 4/</u>	:	:	:	:	:	:	:	
Total outlays	: Mil. dol.	: 65,838	: 66,361	: 68,384	: 67,590	: 67,347	: 67,722	
Public construction	: Mil. dol.	: 19,895	: 20,193	: 20,921	: 20,046	: 19,462	: 19,809	
Private residential	: Mil. dol.	: 26,584	: 26,586	: 26,991	: 26,675	: 26,872	: 26,799	
Housing starts, private only	: Thousands	: 1,557	: 1,621	: 1,489	: 1,546	: 1,484	: 1,531	
Manufacturers' shipments, orders, and inventories: <u>2/ 3/</u>	:	:	:	:	:	:	:	
Total shipments	: Mil. dol.	: 37,129	: 36,791	: 40,285	: 40,044	: 39,870	:	
Durable goods	: Mil. dol.	: 19,231	: 19,023	: 21,284	: 20,915	: 20,573	:	
Unfilled orders	: Mil. dol.	: 57,044	: 52,833	: 58,595	: 59,463	: 59,880	:	
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 62,944	: 60,398	: 63,708	: 63,999	: 64,256	:	
Durable goods	: Mil. dol.	: 38,412	: 36,492	: 38,972	: 39,233	: 39,449	:	
Employment and wages: <u>2/ 6/</u>	:	:	:	:	:	:	:	
Total civilian employment	: Millions	: 70.4	: 70.3	: 71.4	: 71.7	: 71.9	: 72.1	
Nonagricultural	: do.	: 65.6	: 65.5	: 66.9	: 66.9	: 67.0	: 67.5	
Unemployment	: do.	: 3.9	: 4.0	: 3.5	: 3.7	: 3.5	: 3.6	
Workweek in manufacturing	: Hours	: 40.7	: 40.6	: 41.4	: 40.9	: 41.1	: 41.0	
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.53	: 2.53	: 2.60	: 2.60	: 2.61	: 2.62	
Income and spending:	:	:	:	:	:	:	:	
Personal income <u>3/ 4/</u>	: Bil. dol.	: 491.4	: 489.3	: 513.8	: 515.8	: 520.0	: 523.9	
Consumer credit outstanding <u>1/ 5/</u>	: Mil. dol.	: 76,810	: 71,907	: 76,085	: 77,483	: 78,687	:	
Automobile	: Mil. dol.	: 24,521	: 23,702	: 25,063	: 25,615	: 26,109	:	
Total retail sales <u>2/ 3/</u>	: Mil. dol.	: 21,802	: 21,773	: 22,805	: 22,865	: 23,375	: 23,294	
Durable goods	: Mil. dol.	: 7,093	: 7,002	: 7,669	: 7,550	: 7,715	: 7,687	
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 29,621	: 30,180	: 30,544	: 30,951	: 31,077	:	
Prices: <u>6/</u>	:	:	:	:	:	:	:	
Wholesale prices, all commodities	: 1957-59=100	: 100.5	: 100.0	: 101.3	: 101.7	: 102.1	: 102.8	
Commodities other than farm and food	: do.	: 101.2	: 100.9	: 102.0	: 102.1	: 102.3	: 102.4	
Farm products	: do.	: 94.3	: 93.2	: 95.4	: 97.6	: 98.4	: 100.3	
Foods processed	: do.	: 101.0	: 100.2	: 101.8	: 102.3	: 103.3	: 105.9	
Consumer price index, all items	: do.	: 108.1	: 108.0	: 109.0	: 109.3	: 109.6	:	
Food	: do.	: 106.4	: 106.2	: 106.9	: 107.3	: 107.9	:	
Prices received by farmers <u>7/</u>	: 1910-14=100	: 236	: 233	: 239	: 243	: 251	: 256	
Crops	: do.	: 238	: 242	: 237	: 243	: 248	: 243	
Livestock and products	: do.	: 235	: 225	: 241	: 244	: 254	: 266	
Prices paid, interest, taxes and wage rates <u>7/</u>	: 1910-14=100	: 313	: 313	: 318	: 320	: 323	: 323	
Family living items	: do.	: 300	: 300	: 303	: 303	: 308	: 307	
Production items	: do.	: 270	: 269	: 273	: 276	: 278	: 278	
Parity ratio <u>7/</u>	:	: 76	: 74	: 75	: 76	: 78	: 79	
Farm income and marketings: <u>7/</u>	:	:	:	:	:	:	:	
Volume of farm marketings	: 1957-59=100	: 118	: 104	: 88	: 86	: 87	: 103	
Cash receipts from farm marketings	: Mil. dol.	: 36,899	: 2,608	: 2,452	: 2,466	: 2,546	: 3,000	

Annual data for most of these items for years 1929, 1941, 1947 and 1951-64 appear on page 35 of the April 1965 issue of The Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U. S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U. S. Department of Labor. 7/ U. S. Department of Agriculture.

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 T H E D E M A N D A N D P R I C E S I T U A T I O N
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Approved by the Outlook and Situation Board, July 22, 1965

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SUMMARY

Prices received by farmers climbed around 5 percent from the first to the second quarter to a level 6 percent above a year earlier. The quarterly gain was mostly due to shorter supplies of meat animals, vegetables, and potatoes. Prices received early this year for cattle and hogs had already recovered somewhat from the lows in 1963 and early 1964. But previous decisions by farmers to farrow fewer sows, feed fewer cattle, and feed hogs and cattle to lighter weights, culminated in further curtailment of red meat production during the second quarter of this year. With continued expansion in the demand for farm products, the result was higher prices for meat and poultry. Prices received by farmers for hogs during the second quarter were 22 percent above the first and 36 percent above a year earlier. Prices received for cattle were 12 percent above the first quarter and 15 percent above a year earlier.

Among the crops, shorter supplies of potatoes and some vegetables during the second quarter led to higher prices received by growers than during January-June. A number of vegetables including tomatoes, lettuce, onions, carrots, broccoli, celery, and cabbage contributed to the rise. The index of prices received for all commercial vegetables in the second quarter averaged 25 percent above the first quarter and 27 percent above a year earlier. Prices

for potatoes in the second quarter were 15 percent above the first quarter and 52 percent above a year earlier. In addition, higher prices were received for feed grains and cotton during the second quarter than the first.

Price movements in prospect for crops and livestock products suggest that average prices received by farmers were at or near their 1965-highs by mid-year. Although prices are expected to continue above year-earlier levels, some decline is anticipated as supplies move to market later in the year. July prospects were for increased output of most commodities in 1965 pointing to a level of farm output above last year. However, output will be down significantly for pork, flue-cured tobacco, and sugar beets.

Prices paid by farmers for commodities and services, including interest, taxes, and wage rates, are more than 2 percent above a year earlier. Recent price gains were mostly among production items of farm origin such as feeder livestock. Wage rates are rising, but with a sharp reduction in the number of hired workers the labor bill will be lower this year than last. Farm production expenses will rise further this year and may total \$3/4 billion above 1964. Prospective advances for incomes and costs point to a realized net farm income this year around \$600 million above the \$12.9 billion estimated for 1964.

General business activity continued expanding during the second quarter, bringing the Gross National Product to \$658 billion (annual rate), \$39 billion above a year earlier and \$157 billion above the low experienced during the first quarter of 1961. Recent gains continue to display proportionately less public and more private consumption; consumer spending was \$27 billion more than a year earlier, and private investment was up \$7 billion. Business expansion increased employment by 1.4 million workers and reduced the rate of unemployment to 4.7 percent of the labor force from 5.3 percent a year earlier. Final product prices were rising a little faster than the trend of recent years during the second quarter, including those for food items.

With disposable personal income around 6 percent above a year earlier, the domestic market for farm products is continuing to expand. Consumer spending for food is running more than 6 percent above a year earlier. Exports of farm products have been at a record high, \$6 billion per year for the past 2 years. Prospects for coming months point to a continued high level of domestic and foreign demand.

GENERAL AGRICULTURAL SITUATION

Domestic markets for farm products are continuing to expand during 1965 and consumer spending for food is expected to total around 5 percent above the \$80 billion spent in 1964. Consumer use of crop products is rising again this year but a possible reduction is in prospect for total use of livestock products. Spending for cotton in various of its final-product forms is up sharply and the domestic use of cigarette tobacco is above the reduced levels of a year earlier. And consumption of fruit and soybean products is increasing. Among the livestock products, broiler consumption is indicated well above a year earlier but pork production will be down sharply. The advance in consumer spending this year is close to the rapid rise the year before when disposable income jumped 7 percent. Population is indicated 1.3 percent more than a year ago.

Prices Have Risen
For Farm Commodities

Shorter domestic supplies during the second quarter of some commodities, including pork, beef, some early fresh vegetables, and melons, led to a rise in prices received by farmers. Prices accelerated in April and continued rising through the second quarter (table 2). Prices at the wholesale level moved about parallel to those received by farmers. Prices for processed foods started rising later and more slowly, as did consumer food prices. Prices for food eaten at home were rising faster than food away from home. Central market prices indicated that little further upward pressure remained on prices at the farm level in July. Retail food price reports are available so far through May. The impact of price advances in the second quarter at the farm and wholesale levels likely will influence retail food prices through late summer even though prices received by farmers in coming months run, as expected, a little lower than the June-July peak.

Table 2.--Recent monthly price movements of farm products,
January 1965=100

Index	Jan.	Feb.	Mar.	Apr.	May	June
Prices received by farmers <u>1/</u>	100.0	100.8	101.3	103.0	106.4	108.5
Wholesale farm product prices <u>2/</u>	100.0	101.6	102.6	104.9	105.8	107.8
Wholesale processed food <u>2/</u>	100.0	99.9	99.6	100.1	101.1	103.6
Consumer food prices <u>3/</u>	100.0	100.0	100.3	100.7	101.2	n.a.

1/ Statistical Reporting Service, U. S. Department of Agriculture. 2/ Wholesale price index, Bureau of Labor Statistics. 3/ Consumer price index, Bureau of Labor Statistics.

Table 3.--Agricultural prices, marketings and income, 1963 to date

Item	Unit	1963				1964				1965	
		Year	II	III	IV	Year	I	II	I	II	
Prices received by farmers											
Crops	:1910-14=100:	242	235	234	235	236	238	250			
Livestock and products	:1910-14=100:	239	245	229	234	238	235	245			
	:1910-14=100:	245	227	239	236	235	239	255			
Prices paid, interest, taxes and wage rates											
Family living items	:1910-14=100:	312	313	313	313	313	318	322			
Production items	:1910-14=100:	298	300	300	301	300	303	306			
	:1910-14=100:	273	270	269	269	270	273	277			
Parity ratio											
		78	75	75	75	76	75	78			
Volume of farm marketings											
Crops	:1957-59=100:	116	93	123	157	118	99	93			
Livestock and products	:1957-59=100:	119	61	132	198	119	84	69			
	:1957-59=100:	114	116	117	127	117	111	110			
Cash receipts from farm marketings <u>1/</u>											
Crops	: Bil. dol. :	37.3	7.2	9.4	12.3	36.9	7.9	8.0			
Livestock and products	: Bil. dol. :	17.4	2.5	4.4	7.0	17.1	3.1	2.8			
	: Bil. dol. :	19.9	4.7	5.0	5.3	19.8	4.8	5.2			
Farmers' realized net income <u>2/</u>											
	: Bil. dol. :	12.0	13.0	13.1	13.1	12.9	12.6	15.0			

1/ Seasonally adjusted annual rates are: 1964-II, \$37.0 billion; III, \$37.0 billion; and IV, \$36.7 billion. 1965-I, \$36.7 billion; II, \$39.5 billion.

2/ Seasonally adjusted annual rates.

U. S. Department of Agriculture.

Among the livestock products, reduced pork output during the first quarter led to higher prices for hogs; a further decrease in pork production during the second quarter to levels about one-tenth below a year earlier was associated with additional hog price increases to levels 36 percent above the second quarter of 1964. In the second quarter when fed cattle slaughter dropped below year-earlier rates, prices received for cattle rose to levels about 15 percent above a year earlier. Price gains for hogs and cattle in the second quarter added price strength to substitute commodities including lamb, chicken, and turkey. Prices received for eggs, on the other hand, continued slightly below a year earlier during the second quarter after having dropped to 15 percent below a year earlier during the first quarter. Prices received for milk during the second quarter were about 2 percent above a year earlier, largely due to increases in the support purchase prices for dairy products. For the year, prices received for livestock and products are expected to decline some from the midsummer high but will continue well above a year earlier.

Crop prices during the second quarter averaged 4 percent above the quarter before but about equal to those a year earlier. Feed grain prices have been 6 percent higher so far this year than a year earlier, because of the smaller 1964-crop, and were slightly above Government loan rates. Prices received by farmers for soybeans in March and April were 60 cents per bushel above the \$2.25 support level and were 35 cents above a year earlier; the 1964 crop was about the same as a year earlier and domestic and foreign markets continue to expand. Lower prices received during the second quarter for fruit are largely a return to earlier levels from unusually high prices a year earlier when supplies of fresh peaches and citrus were reduced. Prices received for vegetable crops jumped during the second quarter to a level 27 percent above a year earlier; unfavorable weather reduced early-season supplies. Prices for potatoes during the second quarter were 52 percent above a year earlier, a continuing effect of the reduced fall harvest in 1964.

If crop production and marketings increase in coming months as indicated in July, and in view of reduced Government loan rates for 1965 grain and cotton crops from 1964, prices received by farmers for crops later this year are expected to recede to levels below a year earlier.

Crop Production

Higher

Crops planted for 1965 harvest total 308 million acres, up $1\frac{1}{2}$ million acres from last year and about the same as in 1963. Last year, with fewer acres and lower yields, crop production dropped to 109 percent of the 1957-59 average from the 112 in 1963. This year, July 1 prospects are favorable, except in parts of the Northeast and North Central regions, pointing to a level of crop production well above last year. Early season prospects indicate gains in production this year for wheat, feed grains, hay, soybeans, and potatoes. Grower participation in the domestic cotton allotment program was heavier this year than last and total acreage is estimated to be around 4 percent lower. However, the percentage of acreage harvested likely will be larger than in 1964 and cotton yields have been trending upward. Acreage for harvest of flue-cured tobacco is 9 percent less than a year earlier. And with the acreage-

poundage program for flue-cured accepted by grower referendum last May, yields per acre were also indicated lower as of July 1. For burley tobacco, however, not as yet under the acreage-poundage program, indications on July 1 were that higher yields would about offset reduced acreage resulting in virtually no change in production.

Little Change in Total Output
of Livestock and Products

Farmers reduced hog production sharply this year in response to relatively low prices in 1964. The reduction is sufficiently sharp to more than offset gains in other livestock products indicating a level of total output a shade below the record high of 1964. Beef production dropped below year-earlier rates during the second quarter but is expected to pick up again in coming months. Reduced pork output is limiting the level of total red meat production and higher prices are encouraging sharply increased output of chicken and turkey. Milk production is indicated slightly higher than a year earlier. But egg output may be down slightly, particularly in the fourth quarter.

Carryover Stocks
Lower

Carryover stocks of 1964-crop grains and soybeans are indicated lower this year while some further rise is indicated for cotton and flue-cured tobacco. Feed grain carryover into 1965-66 is expected to be about 14 million tons below the 69 million tons on hand a year earlier. Utilization in 1964-65 was little changed from a year earlier but 1964 production was 12 percent lower. Wheat stocks on July 1 were down 82 million bushels from the 901-million bushel carryover a year earlier; disappearance exceeded production again this year mostly because exports continued near the record high levels of a year earlier. Soybean carryover stocks are expected to be at a low level; foreign and domestic demands continued to expand and U. S. production last year was about the same as a year earlier. Cotton stocks August 1 were estimated about 2 million bales above the 12.4 million-bale carryover a year earlier; domestic use was higher but exports were lower and production was again well above requirements.

The reduction in stocks of most commodities was accompanied by reduced levels of CCC investment in commodity loans and inventories during fiscal 1964-65. Total investment on June 30, 1965 was estimated about 8 percent below the \$7.1 billion a year earlier. The value of loans outstanding and of inventories was lower at the end of the year.

Prices Paid and Production
Expenses Higher

Prices paid by farmers during the second quarter were 322 percent of the 1910-14 average compared with 318 during the first quarter and 313 a year earlier. Much of the gain in the second quarter from the first quarter was for price increases of production inputs of farm origin, up 5 percent from the

quarter before, mostly for feeder livestock. Prices paid for production inputs of farm origin are correlated with prices received by farmers. In recent years, two-thirds of the variation in prices paid for production items of farm origin was explained by changes in prices received by farmers. Further analysis indicates that a 10 percent increase in prices received by farmers over time can be expected to result in an 8.5 percent rise in the index of prices paid for production inputs of farm origin. Prices paid for inputs with nonfarm origin rose slightly during the second quarter, continuing the steady uptrend of recent years.

Production expenses are rising this year about in proportion to the advance in prices paid. Farmers are spending more to own and maintain machinery and equipment this year and are using more purchased feed and fertilizer. In addition, expenses for taxes and interest are rising. The labor bill will be lower again this year; wage rates continue rising but are more than offset by the long-run downtrend in farm employment. The hired work force in agriculture during January-June averaged 1.3 million workers, down nearly 8 percent from a year earlier.

The value of wheel-type tractors shipped by manufacturers during the first 4 months of 1965 was up 12 percent from a year earlier. However, the number of tractors shipped was up only 3 percent. A 2 percent gain in unit values of tractors explains some of the difference between these two series. But the principal reason that the value of shipments is rising faster than the number of tractors shipped is apparently a continued shift from small tractors to big ones.

The shift toward more heavy tractors is further evidenced by a recent report of retail tractor sales issued by the Farm and Industrial Equipment Institute: During January-May, 22 percent of the farm tractors retailed were of 90 or more horsepower compared with only 15 percent a year earlier. The report for the first 5 months of the year indicated that the total number of tractors sold was less than a year earlier, but with a shift toward more heavy tractors, little change was evident in the total horsepower sold. The market for heavy farm machinery and equipment is expected to continue strong in coming months in view of continued introduction of new technology and of substantial gains this year in cash receipts of marketing farm products.

Value of Farm Assets Rising

Market values of farm real estate per acre advanced and as of March 1 were 6 percent above a year earlier. These gains added \$8.6 billion to the estimated market value of all farm real estate. Real estate as of January 1 was valued at \$159.4 billion, equivalent to \$52,200 per farm and to \$146 per acre. Some further increase from a year earlier also occurred in the value of machinery and motor vehicles on farms January 1. But lower prices then for crops and livestock, and reduced holdings of crops, resulted in small decreases in the value of crops and livestock inventories on January 1 from a year earlier. Thus, higher land values were primarily responsible for the boost in

the total value of assets on January 1 to \$237.6 billion from \$228.9 billion a year earlier. Farm debt gained \$2.6 billion, mostly for real estate mortgages. A survey in March 1964 indicated that nearly three-fourths of farm sales used credit. Commercial credit sources supplied much of the financing, but sellers of farms financed 39 percent of the sales. With the rapid rise in the use of credit by farmers, equities were reduced to 84.2 cents per dollar of total assets on January 1 from the 84.8 cents a year earlier.

Realized Net Farm Income
Up During First Half

Cash receipts from marketing farm products in January-June 1965 were 5 percent above a year earlier. Most of the increase resulted from higher prices received for livestock and products. Gains in receipts from crops were due partly to higher vegetable prices but mostly to increases in the volume of marketings. Allowing for some increase in Government payments and little change in nonmoney income, realized gross farm income rose in the first half to \$43.6 billion, seasonally adjusted annual rate, up from \$42.2 billion a year earlier. Production expenses also rose and realized net farm income in January-June was at a seasonally adjusted annual rate of \$13.8 billion, a billion dollars above a year earlier.

FACTORS AFFECTING DEMAND
FOR FARM PRODUCTS

Continued expansion most aptly describes the performance of the economy in the second quarter. The Gross National Product, which measures the total value of final goods and services produced, rose to an annual rate of \$658.0 billion (second quarter seasonally adjusted) (table 4), \$9.2 billion above the quarter before and \$39.4 billion above a year earlier. Both the public and private sectors of the economy participated in the second quarter gain. Net exports recovered most of the ground lost in the dock strike during the first quarter. In response to expanding demand, industrial production continued to rise and the second quarter level of 141.4 (1957-59=100) was up 10.3 points from a year earlier. The level of unemployment, after seasonal adjustment, fell to 4.7 percent of the labor force in April-June compared to 5.3 percent during the same period last year. This was the lowest quarterly rate of unemployment since April-June 1957.

Consumer Income and Spending

Spurred by increased employment and higher earnings in the second quarter, seasonally adjusted personal income rose \$8.3 billion from the first quarter to \$519.9 billion at annual rates. Increases in wage and salary disbursements, and farm proprietors' income, accounted for most of the rise. Transfer payments were virtually unchanged from January-March but can be expected to rise

Table 4.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	Year				1964				1965			
		1964	II	III	IV	I	II	III	IV	I	II	III	IV
Gross national product	Bill. dol.	622.6	618.6	628.4	634.6	648.8							658.0
Personal income	Bill. dol.	491.4	487.9	494.5	502.2	511.6							519.9
Disposable personal income	Bill. dol.	431.8	430.2	435.6	442.1	448.3							455.3
Personal consumption expenditures	Bill. dol.	399.3	396.1	404.6	406.5	418.1							423.0
Durable	Bill. dol.	57.0	57.0	58.7	56.3	62.0							60.6
Nondurable	Bill. dol.	177.3	175.3	179.5	181.3	184.3							187.7
Services	Bill. dol.	165.1	163.8	166.4	169.0	171.7							174.7
Personal saving	Bill. dol.	32.5	34.0	31.0	35.5	30.2							32.3
Net government receipts	Bill. dol.	125.7	124.1	126.6	127.7	133.4							---
Government purchases	Bill. dol.	128.6	129.6	129.5	130.0	131.0							133.6
Deficit or surplus (on income and product account)	Bill. dol.	-2.7	-5.5	-3.0	-2.3	-2.4							---
Gross private domestic investment	Bill. dol.	87.7	87.2	87.3	90.4	94.7							94.3
Fixed investment	Bill. dol.	84.0	83.5	84.5	84.7	87.8							88.6
Change in business inventories	Bill. dol.	3.7	3.7	2.8	5.7	6.8							5.7
Expenditures for plant and equipment	Bill. dol.	44.90	43.50	45.65	47.75	49.00							2/49.60
Corporate profits (before taxes)	Bill. dol.	57.4	57.9	58.1	57.0	62.9							---
Net exports of goods and services	Bill. dol.	7.0	5.7	7.0	7.7	5.0							7.1
Overall foreign payments balance	Mill. dol.	-2,798	-1,028	-2,328	-5,464	1/-2,672							---
Population 3/	Millions	192.1	191.8	192.5	193.2	193.8							194.3
GNP implicit price deflator	1964=100	100.0	99.7	100.3	100.6	101.1							101.6
Per capita disposable personal income (1964 prices)	Dollars	2,248	2,245	2,260	2,278	2,291							2,306

1/ Preliminary. 2/ Estimates based on anticipated capital expenditures as reported by business.

3/ Population of the United States including Armed Forces abroad. Annual data as of July 1; quarterly data centered in the middle of the period.

Departments of Commerce, Agriculture and Securities and Exchange Commission.

substantially in the second half of 1965 due to increased social security payments. With personal taxes rising slightly from the first quarter, disposable personal income increased \$7.0 billion to \$455.3 billion (annual rate).

With rising incomes, consumers increased their purchases of goods and services \$4.9 billion during the second quarter to a \$423.0 billion seasonally adjusted annual rate, mostly for nondurables and services. Consumer spending for durable goods fell as auto sales declined from the phenomenal first quarter level. Never the less, it appears that 1965 will be another record year for auto sales. Increased spending in the second quarter for furniture and other durables failed to offset the decline in autos.

Outlays for nondurables were up from the first quarter, and the uptrend in consumer expenditures for services continued. Spending for services in 1964 was 41 percent of personal consumption expenditures compared to 36 percent in 1954. In coming years, this percentage is expected to increase.

Consumers used part of their increased income to add to savings. Personal savings increased \$2.1 billion (annual rate) in the second quarter to 7.1 percent of disposable income compared with 6.7 percent the quarter before. However, consumers continued to expand their use of credit to finance outlays as automobile and personal loans increased in April-June. Installment loan repayments remained at the recent high level of over 14 percent of disposable income and do not appear to be weakening consumer demand. Surveys of consumer buying intentions indicate further gains in consumer spending in coming months. In addition, recent excise tax reductions are expected to stimulate consumer demand through lower prices.

Private Investment

Gross private domestic investment, which had been rising since the beginning of 1961, was virtually unchanged from the first to the second quarter. New construction expenditures increased while inventory investment--the change in business inventories-- increased at a slower rate; producers' durable equipment expenditures leveled.

Residential construction activity, which has been sluggish for the past year, held about steady during the second quarter after increasing \$1 billion in the first quarter. Seasonally adjusted housing starts, an important leading indicator of residential construction activity, increased slightly and continued around the average for the past 12 months. Housing permits were off nearly 3 percent from the first to the second quarter.

Producers' durable equipment expenditures were, in effect, unchanged from the first quarter level. This was due, in part, to a reduction in automobile purchases for business use. A healthy gain of about \$1 billion was registered in nonresidential construction expenditures which rose to \$24.6 billion (annual rate) in the second quarter. Rising demand and increasing profits continue to encourage businessmen to institute new programs for expansion and replacement. Corporate profits after taxes were \$36.6 billion at

annual rates in January-March 1965. This was 17 percent higher than the first quarter of 1964. Recent surveys of business investment plans indicate that plant and equipment expenditures will continue to stimulate the economy throughout the rest of 1965. A Department of Commerce-SEC survey conducted in late April and early May points to plant and equipment expenditures in 1965 about 12 1/2 percent higher than last year. This is just short of the 14.5 percent increase from 1963 to 1964.

Inventory levels increased in the second quarter but at a slower rate than in the first quarter. The change in business inventories was \$5.7 billion at annual rates in the second quarter compared to \$6.8 billion in January-March. A slow down in retail trade inventory accumulation appears to have been the major cause of the slower growth in inventory investment. With rising sales levels, inventory sales ratios remained around recent rates.

Government Demand

Government purchases of goods and services, which have averaged about 20 percent of GNP in recent years, increased in the second quarter to \$133.6 billion at annual rates. This compares with \$131.0 billion in the previous quarter and \$129.6 billion in the second quarter of 1964. About \$1 billion of the second quarter gain was due to an increase in Government wage and salary disbursements. Both Federal and State and local expenditures for goods and services rose in the second quarter. Increases in defense purchases accounted for almost all of the increase in the Federal sector.

With a prosperous economy generating high levels of consumer and business income, Government revenues are exceeding those expected in January 1965. This combined with slowly rising expenditures, has caused a downward revision in the Federal administrative budget deficit of about \$3 billion in fiscal 1965 and about \$1 billion in fiscal 1966. The deficit on the administrative budget was \$3.5 billion in fiscal 1965 compared to \$8.2 billion in fiscal 1964.

Production and Employment

Production and employment increased further in the second quarter, stimulated by rising income and demand. The Federal Reserve Board's seasonally adjusted index of industrial production rose 2.1 points from 139.3 (1957-59=100) in the previous quarter. Manufacturers' shipments and new orders for durables, while still at a very high level, were below first quarter levels during the first quarter.

Most of the second quarter gain in industrial production was attributable to increased output of materials. The output index for materials, which contributes about 50% of the overall index, increased 3.0 points from the first to the second quarter. The second quarter level of 143.0 was considerably above a year ago. The output of final products increased slightly in the second quarter. Most of the small gain was due to increases in equipment output; the output of consumer goods was virtually unchanged from the first quarter.

Employment

Civilian employment expanded with production during the second quarter, up 0.6 million (seasonally adjusted) from the quarter before and up 1.4 million from a year earlier. With the labor force increasing more slowly than employment, the seasonally adjusted unemployment rate for the second quarter of this year dropped to 4.7 percent of the labor force compared with 5.3 percent a year earlier.

The unemployment rate is a frequently quoted statistic which can best be understood by looking at some of its major components. Unemployment information is made available with respect to several cross-classifications, some of which are shown in table 5. Sorting the unemployed in May according to recent occupation, for example, indicates that rates of unemployment were below the national average for professionals, but higher for nonfarm laborers. And resorting the same statistics along industry lines indicates that rates of unemployment in May were below the national average in the transportation and public utilities industries, but higher in construction. These unemployment rates do not, of course, reflect those who are not employed but remain outside the labor force.

In June, when 4.3 million members of the labor force were reported as unemployed, a weekly average of 1.2 million workers were covered by unemployment insurance. Total insurance benefits paid in June under all programs were \$157 billion. The series on duration of unemployment shows that for May 1965, half of the unemployed had been out of work for less than 5 weeks, one-fourth for 5 to 14 weeks, 13 percent for 15 to 26 weeks, and 11 percent for 27 or more weeks. The average duration of unemployment as of May was about 12 weeks compared with 15 weeks at the same time last year.

Labor force time lost through unemployment and part-time work during January-June was 5.3 percent (seasonally adjusted) of the total man-hours potentially available to the civilian labor force. This is down from 6 percent of the potential lost through unemployment or through part-time work for economic reasons a year earlier.

Prices

Since 1958, wholesale prices have been relatively stable. However, they have been moving upward for the last year. In the second quarter of 1965 the BLS index of wholesale prices was 2.1 points above the level a year earlier of 100.1 (1957-59=100). Taking the weights of the different commodities in the index into account, it is evident that about half of the rise was due to increases in the prices of industrial type commodities. Increases in the price of industrial type commodities, which went from 101.0 in the second quarter of last year to 102.3 in the second quarter of this year, accounted for 48 percent of the rise in the overall wholesale price index since April-June 1964. Within the industrial group, industrial crude materials rose the most while intermediate materials and producer finished goods increased only slightly. Prices of farm products rose 5.0 points from 93.8 in the same

Table 5.--Selected characteristics of the unemployed, May 1965

Classification	Unemployment rate, not seasonally adjusted ^{1/}					
	0 to 3 percent	3 to 4 percent	4 to 5 percent	5 to 8 percent	8 percent and over	
Age						
Male	25-64	65 and over		20-24		14-19
Female	55-64	35-54	25-34	20-24		14-19
Sex		Male		Female		
Color			White	Nonwhite		
Marital Status						
Male	Married, spouse present			Other marital status		Single
Female		Married, spouse present	Other marital status			Single
Occupation ^{2/}		Professional and technical		Operatives		
		Managerial (farm and nonfarm)		Laborers (nonfarm)		
		Domestic service		Services (not domestic)		
Industry ^{2/}		Transportation and public utilities	Trade	Agriculture		
		Finance, insurance, and real estate		Construction		
		Public administration		Mining, forestry, and fisheries		

^{1/} The adjusted total unemployment rate for May 1965 was 4.4 percent.

^{2/} The unemployed with no previous work experience are excluded from both occupational and industry classifications. Self-employed and unpaid family workers are included in the breakdown by occupation, but excluded from the breakdown by industry. Self-employed and unpaid family workers as a whole had an unemployment rate of 0.9 percent (unadjusted) in May 1965.

period and accounted for 26 percent of the rise in the overall index. About 26 percent of the rise in the overall price index during the last year was due to increases in the prices of processed foods.

There is some lag in the effect of wholesale price changes on retail prices. Recent increases in wholesale prices have not worked through to the retail level completely in most cases. Nevertheless, the slowly rising trend in consumer prices has shown signs of speeding up in recent months. The consumer price index in May was 0.6 point above March of this year and stood 1.8 points above May 1964 at 109.6 of the 1957-59 average. The recent cut in excise taxes will reduce prices of selected items, exerting some downward pressure on retail prices.

Stock market prices were erratic during the second quarter of 1965. The Dow-Jones industrial average dropped about 100 points between the middle of May and the end of June from an all-time high of about 940. Prices have gained somewhat since that time.

FOREIGN TRADE

U. S. Gold Tied to
Balance of Payments

The U. S. balance of payments with the rest of the world was at a deficit of \$3 to \$4 billion in each year from 1960 to 1964 (regular transactions basis). Our trade balance has been favorable but has been more than offset by private and public outflows of capital. A large part of the deficit has been financed by gold payments by the United States, but a good share of it has been financed through increments to dollar holdings abroad. Foreign central banks holding dollars have the option to buy U. S. gold, at the fixed price of \$35 an ounce, on short notice. By May 1965, our gold stocks had dropped to \$14.3 billion, \$9.7 billion of which was required to back our domestic currency. A number of measures introduced by the United States to maintain exports and limit the rate of capital outflow apparently brought our financial accounts with the rest of the world about into balance during the second quarter of this year. It is not yet certain whether any long-term structural changes have been achieved.

Agricultural Exports
Maintaining Record Level

Exports of U. S. agricultural commodities in fiscal 1964-65, are estimated at a record \$6.1 billion for the second year in a row. Most of the reduction in exports due to the January-February longshoremen's strike was compensated by heavy shipments following the settlement or by earlier shipments in anticipation of the strike. Agricultural exports were sustained at the high level of the preceding year by increased exports of corn, soybeans and oilseed

products, and some animal products. Despite a return to normal crops abroad, wheat exports were not far below the unusually high level reached a year earlier. Shipments of wheat were upheld by increased exports under P. L. 480 and by lower world prices. Exports of cotton and tobacco, however, were lower in fiscal 1964-65 than in the preceding year because of increased foreign competition.

Imports of Agricultural Commodities Lower

U. S. agricultural imports for consumption in fiscal 1964-65 apparently were slightly below the \$4,096 million imported in 1963-64. They totaled \$3,643 million in the first eleven months of 1964-65, 4 percent below a year earlier. Both supplementary (partially competitive) and complementary (non-competitive) imports declined. In the same period, nonagricultural imports rose 3.5 percent, reflecting the continued economic expansion in the United States.

Much of the decline in agricultural imports was due to a reduction in imports of beef and veal to 612 million from 966 million pounds in July-May a year earlier. A larger part of Australian and New Zealand supplies of cow beef were diverted to Western Europe by favorable prices there, while increased domestic production of cow beef reduced U. S. imports.

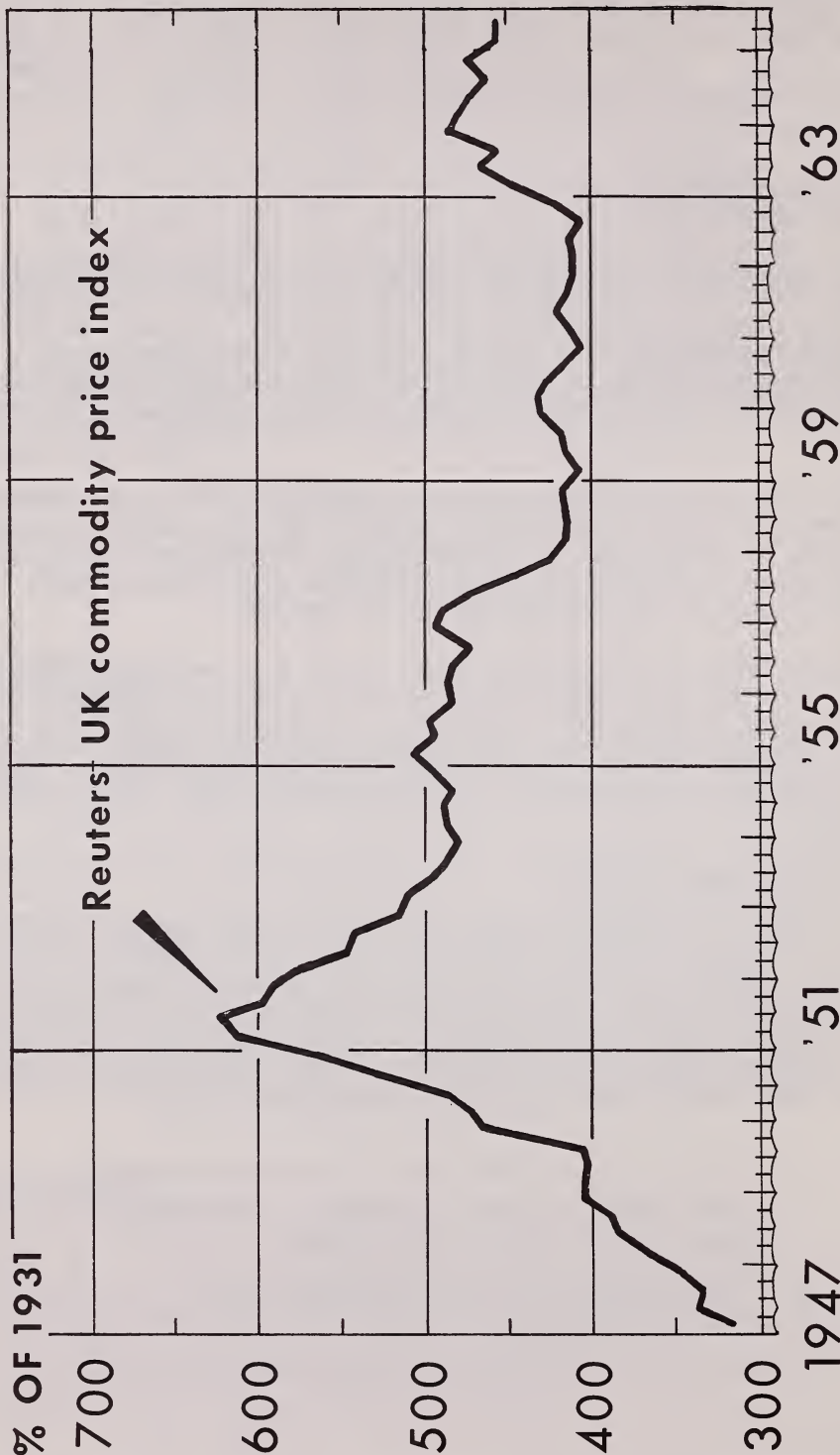
Although imports of sugar increased to 3.5 million tons in July-May 1964-65 from 3.3 million in 1963-64, prices were lower and the value of sugar imports declined by \$100 million. Imports of coffee and carpet wool were also lower than a year earlier in the first eleven months of 1964-65. These offset increases in oilseeds and products, tobacco, apparel wool, and the value of dairy products.

World Commodity Prices Declining

World commodity prices, measured daily at United Kingdom international markets by the Reuters' index, declined in recent months and averaged about 5 percent lower in the first half of 1965 than in the same period of 1964. The lowest point reached in July is around 10 percent below the previous peak of November 1963 which was caused by inflated sugar prices; but it is well above the low in 1962 (see chart). The commodities most responsible for the recent decline are sugar, wheat, wool tops, base metals, and cocoa.

:	:	
:	The Demand and Price Situation is published	:
:	January, April, July, and November.	:
:	:	:
:	The next issue is scheduled for release	:
:	November 15, 1965.	:
:	:	:

WORLD COMMODITY PRICES



QUARTERLY DATA: AVERAGE OF HIGH AND LOW BY MONTHS.

CURRENT COMMODITY SITUATION

LIVESTOCK AND LIVESTOCK PRODUCTS

Meat Animals

Smaller supplies of red meat this spring particularly pork and fed beef, were primarily responsible for higher livestock prices. Demand continued to rise with population and income. In June, Choice steers at Chicago averaged \$27.68 per hundred pounds, up \$6 from June 1964. Feeder cattle prices in July were more than \$5 above a year earlier. Barrows and gilts at 8 markets averaged \$23.38 during June, up \$7.50 from the same month in 1964. Choice lambs at Denver during June averaged \$26.98, up \$3.80 from year-earlier levels.

Hog slaughter this summer and fall likely will average 10 percent or more below year-earlier levels. The December-May 1965 pig crop, main source of slaughter hogs during the second half of the year, was down 10 percent. Slaughter may be reduced even more than indicated by the June Pig Crop report since producers likely will hold back gilts this fall to expand production next year.

Sharply reduced hog slaughter this spring brought about substantially higher prices. Hog prices during the rest of the summer likely will average close to current levels--\$24.47 at 8 markets, the first 2 weeks in July. Moreover, prices will continue favorable to producers next fall as supplies increase seasonally. The seasonal low price this fall may average above the 1964 summer peak of \$17.11.

On June 1, producers stated intentions to have 7 percent fewer sows farrow this fall than last. If these intentions materialize, slaughter supplies next winter and spring will continue below year-earlier levels. Thus, prices during the period likely will equal or exceed this year's January-June average of \$18.56 at 8 markets.

During the first half of 1965, lamb prices averaged \$24.59, up \$3.00 from the year-earlier level in response to smaller supplies. Slaughter during the first 6 months of the year was down about 11 percent, although the early lamb crop was only 2 percent smaller than a year earlier. This may mean sheep producers are beginning to hold back ewe lambs in an effort to slow down or halt the liquidation of sheep and lamb numbers which began in 1960. In addition, sheep and lamb slaughter likely will be down 7-9 percent during July-December. As a result, lamb prices will continue to average well above year-earlier levels through the rest of the year, and the inventory of sheep and lambs next January 1, likely will be about the same or only slightly smaller than a year earlier.

There were 7.5 million cattle and calves on feed July 1. This was 9 percent more than on the same date a year earlier. The number on feed weighing over 900 pounds was down 5 percent from a year ago, but those in the lighter weight groups were up 18 percent. Placements during the second quarter were up 24 percent while marketings were down 2 percent.

Cattle feeders stated intentions on July 1 to market 6 percent more cattle and calves out of feedlots during the third quarter than a year earlier. The supply of fed beef during July-September will continue large, but likely will not be up as much as the number of head marketed. Fed cattle prices this summer are likely to decline from early July levels \$27.00 (Choice steers, Chicago), but are expected to average above year-earlier levels, when fed steers averaged \$24.93 during July-September. The total supply of red meat will be down during the second half of this year and consumer demand is expected to continue strong as incomes continue to increase.

Dairy Products

January-June 1965 milk production was 66.9 billion pounds, slightly above a year earlier. The number of milk cows continued to decrease, but milk production per cow was about 3 percent above the first half of 1964. Pasture conditions deteriorated sharply during June in the North Atlantic States; nationally they were improved from the unusually poor conditions a year ago, but still below the 1959-63 average. Milk production in the last half of 1965 is expected to be above year-earlier levels, and to total about 127 billion pounds for all of 1965.

Prices farmers received for milk sold wholesale averaged \$3.92 per 100 pounds during the second quarter of 1965, 7 cents above the same period last year. Cash receipts from farm marketings of dairy products in the first half of 1965 were slightly above the same period of 1964 because of a small gain in marketings and higher prices. Prices received by farmers for all milk at wholesale will rise seasonally during the third quarter and may continue slightly above a year earlier for the rest of 1965 due to this year's higher support prices. Cash receipts are likely to continue above a year earlier during the second half of 1965.

In the first half of 1965, about the same amount of milk was used in manufactured products and about 1 percent more for fluid milk products than a year earlier. Cheese and frozen products gained about 2 percent, but butter production was down 2 percent, and evaporated milk output (for January-May) down 12 percent from a year earlier. Compared with 1964 more first half American cheese output went into commercial stocks, which reached 332 million pounds, at the end of June. This was 4 percent above year earlier levels, as deliveries to CCC fell. Despite lower January-June butter production than a year earlier, Government stocks increased because of weaker domestic and foreign demand. However, 1965 year end stocks of all dairy products combined are likely to be little above 1964's 5.3 billion pounds milk equivalent.

Daily average sales of whole milk during January-May were about 1 percent above a year earlier in 70 Federal and 9 State marketing areas. Sales of skim milk and low fat items in comparable markets increased 9 percent in January-April over a year earlier; but sales of milk and cream mixtures declined 2 percent; cream products declined 1 percent.

Manufactured dairy products taken by commercial outlets in January-June were estimated at 25.6 billion pounds of milk equivalent, excluding imports,

slightly under a year earlier. In the second half of 1965 slight increases may occur for manufactured dairy products except butter and evaporated milk.

During the first quarter of the 1965-66 dairy marketing year (April-June) CCC dairy programs, removed, through purchases and payment-in-kind exports, 2.8 billion pounds of milk equivalent compared with the 3.6 billion pounds in April-June 1964. Projected patterns of milk production and commercial demand suggest that USDA dairy price support activity will be about the same in the 1965-66 marketing year as the 8.2 billion pounds of milk equivalent in the 1964-65 year.

Exports of dairy products during fiscal year 1965 are estimated lower than the 7.9 billion pounds (milk equivalent) and 1.3 billion pounds of nonfat dry milk a year earlier. High exports during the last half of calendar 1964 are being offset by lighter movement in January-June 1965 than a year earlier, because of increased European production and the relatively low level of stocks in the United States.

Poultry and Eggs

Egg production in the first half of 1965 totaled 92 million cases, about the same as a year earlier. June output was 15.1 million cases, up about 1 percent from June 1964. Production is declining seasonally, but is likely to continue around the 1964 level for the next 2 or 3 months. In the fourth quarter, however, egg production is expected to be slightly under a year earlier, since farmers are raising 7 percent fewer replacement chickens than in 1964. The cutback in flock replacements is in response to the extremely depressed egg prices in January-March.

Egg markets were seriously depressed in the early months of 1965 by a spurt in the winter rate of lay which gave rise to sharply higher egg production. Egg prices received by farmers averaged 30.7 cents per dozen in January-March, 5.5 cents below those months in 1964.

Egg prices gained in the second quarter from the low levels of the first; the usual seasonal pattern would have suggested a further decline. A smaller-than-seasonal increase in egg production in the second quarter helped to stabilize egg prices. In April-June, U. S. farm egg prices averaged 30.7 cents per dozen, about the same as in both the first quarter and a year earlier. In June, the farm price was 29.9 cents, 0.8 cent below June 1964. On July 13, price quotations for Grade A large eggs in major markets were mostly 1 to 3 cents above a year earlier. Over the next several months, egg prices are expected to rise seasonally and in the fourth quarter are expected to average a little above a year earlier. These higher prices are likely to carry over into the first quarter of 1966.

A large buildup is underway in broiler production and in the Nation's broiler hatching-egg supply flocks. The expansion follows 12 months of relatively favorable prices. In every month since mid-1964, U. S. farm broiler prices have been equal to or above the year-earlier level; for the entire period,

prices averaged 14.8 cents per pound, up from 14.1 cents in the same 12 months of 1963-64. Prices rose as domestic demand increased more rapidly than broiler production. Contributing to the expanding broiler demand were growth in population, rising consumer incomes, and in recent months, reduced supplies and sharply higher prices for red meats.

The number of young chickens slaughtered in Federally inspected plants was up 4 percent from a year earlier in April-June and likely will be up about 10 percent in July-September. Slaughter had run only 2 percent above a year earlier in the third and fourth quarters of 1964 and 3 percent above in the first quarter this year. Also, fourth quarter output likely will run substantially higher than a year earlier.

Even with continued smaller supplies of red meat and generally strong demand conditions, rapidly increasing production is expected to drop broiler prices a little under 1964 levels, probably before the end of the third quarter. However, not until later in the year are prices likely to be low enough to arrest further expansion in hatchery supply flocks. As a result, the potential to produce broilers may continue to expand well into 1966.

This growing capacity to produce broilers is already signaled by the large additions of pullet chicks to hatchery supply flocks in recent months. The number of layers producing hatching eggs in June, based on cumulative placements, was indicated down 9 percent from a year earlier, but by December 1965 it will have climbed to about 12 percent above the year-earlier level. This expansion in itself will create strong pressures for a substantial increase in broiler production in 1966.

Turkey producers are expected to raise 2 to 3 percent more turkeys this year than the 99.5 million in 1964. Liveweight output may be up 3 to 4 percent as this year's crop will be made up of more heavy breeds and proportionately fewer light breeds. The increased output will come mainly from poults hatched since April. Thus, marketings probably will not significantly exceed the year-earlier level until September, the beginning of the main marketing season. On July 1, frozen turkey stocks totaled 68 million pounds, down 21 million from a year earlier.

Turkey prices in the first half of 1965 averaged 22.9 cents per pound, up from 21.5 cents in the first half of last year. The June price, at 23.4 cents per pound, was 2.4 cents above a year earlier. As in the case of broilers, prices were higher partly because demand was stronger. Also, turkey supplies in early 1965 were smaller than a year earlier. The carryover of frozen turkey into 1965 was down 10 million pounds from the year before. And, Federally certified turkey slaughter in January-June this year totaled 154 million pounds compared with 161 million pounds a year earlier.

Turkey demand in September-December is likely to continue strong, although it will be tempered by rapidly expanding broiler consumption. With turkey supplies up slightly from a year earlier during this period, producers' prices probably will average close to the 21.2 cents received in the last 4 months of 1964.

Wool

Monthly prices received for domestic shorn wool during the first half of 1965 averaged 5 to 14 percent below a year earlier. In June 1965, the average price was 47.5 cents per pound, grease basis, down 13 percent from a year earlier. Wool prices were relatively stable during the first half, with the average mid-month price varying less than 1 cent. In addition, the price differential between grades of wool narrowed to the point where the wool trade has been buying in terms of 1 price for all grades. This price has ranged from \$1.15 to \$1.20, clean basis. Wool prices likely will remain relatively stable the rest of 1965, since demand for domestic apparel wool continues firm.

U.S. mill use of apparel wool during 1965 likely will be substantially above 1964. Mill use is expected to total 275 to 280 million pounds, scoured basis, based on seasonal adjustments of the first 4 months use, compared with 234 million in 1964. Apparel wool use during the first 4 months of 1965 totaled 86.1 million pounds, 7 percent more than in the same period of 1964. Use on the worsted system rose more than that on the woolen system. Also, a larger portion of the finer grades of wool were used in 1965 than a year earlier.

Domestic mill use of carpet wool during 1965 probably will be near the 122 million pounds last year. Based on seasonal adjustment of the first 4 months' use, carpet wool use in 1965 will total 115-120 million pounds. Man-made fibers continue to make inroads in carpet yarn use and will account for the larger total fiber use expected in carpet yarn spinning in 1965. During the first 4 months of 1965, carpet wool use amounted to 37.9 million pounds, 15 percent less than a year earlier. Man-made fiber use totaled 39.8 million pounds, 32 percent above 1964.

Imports of dutiable raw wool during the first 5 months of 1965 totaled 69.7 million pounds, clean content, 70 percent larger than a year earlier. Imports from Australia and Uruguay increased significantly and those from New Zealand and South Africa were up moderately. A smaller proportion of the total originated from Argentina and the United Kingdom.

Duty-free raw wool imports amounted to 39.1 million pounds in the first 5 months of 1965. This was 27 percent less than in the same period a year earlier. Of the major suppliers of carpet wool, only Argentina accounted for a larger quantity than in 1964. The declines in imports of the coarse, unimproved wools of the Middle East were particularly noticeable.

Imports of wool textile products during the first 5 months of 1965 increased from the comparable period a year earlier. Imports of apparel wool items were up; those of carpets and rugs, noils, and wastes were down. The apparel wool items totaled 25.4 million raw wool equivalent pounds, almost a third more than in 1964. Imports of all major categories of apparel products increased. Imports of carpets and rugs totaled 9.8 million pounds, 15 percent less than in 1964.

Although small in total quantity, exports of wool textile products increased substantially in early 1965 due to large exports of noils and wastes.

World wool prices increased up to 5 percent during early July as the 1964-65 marketing season came to a close and drought conditions in the Southern Hemisphere raised fears of smaller output in 1965-66. Wool consumption in the major manufacturing countries was lower during the first half of 1965 as more man-made fibers were consumed. However, if demand for wool should increase in these countries, as it has in the United States, a moderate price rise can be expected in late 1965 and early 1966.

CROPS

Wheat

The 1965 wheat crop was estimated in July at 1,354 million bushels. Winter wheat accounted for 1,070 million bushels; spring wheat the remaining 284 million. The July 1, 1965 carryover of wheat totaled 819 million bushels, 82 million below a year earlier for the fourth consecutive decline in carryover stocks. With an allowance for the usual small imports in 1965-66, the total wheat supply is estimated at 2,175 million bushels. This is about the same as a year earlier but nearly 600 million below the record supply in 1960-61.

Domestic disappearance of wheat in 1965-66 is likely to be 30 to 40 million bushels above the 644 million bushel total disappearance of 1964-65 and well above the 1958-62 average. The increase in domestic disappearance in 1964, as well as that projected for 1965-66, is due to the increased use of wheat for feed. Feeding of wheat in 1964-65, calculated as a residual, totaled about 70 million bushels. Exports in 1965-66 are forecast at 725 million bushels, about the same as those of 1964-65 when they were the second largest of record. Total disappearance in 1965-66 of around 1.4 billion bushels would exceed the crop by about 40 million and the July 1966 carryover would be reduced accordingly.

Prices received by farmers for wheat in 1964-65 averaged \$1.37 per bushel, somewhat above the loan rate. In 1965-66, prices are again likely to average at or above the loan rate. The loan rate for the 1965 crop is \$1.25 per bushel, 5 cents below that for the 1964 crop. Values of the domestic and export marketing certificates have been increased 5 cents each under the 1965 program; this offsets the reduced loan rate. Farmers who participated in the 1964 wheat program received an average of \$1.80 per bushel, while the "blend" price received by all farmers--participants and nonparticipants--averaged \$1.69 per bushel.

Feed Grains

July 1 prospects indicate a 1965-66 feed grain supply of about 204 million tons, slightly smaller than last year and about 8 percent below the 1959-63 average. The 1965 crop would total about 149 million tons if July 1 prospects materialize, 12 million more than the short crop last year and about the same as the 5-year average. The prospective increase in production, however, is slightly more than offset by a prospective reduction of 14 million tons in carryover stocks into 1965-66--down to about 55 million, the smallest since 1957.

The likely increase in production this year is due mostly to higher yield per acre reflecting generally favorable growing conditions through early July. The acreage planted to feed grains was estimated in July at 119 million acres, 4 million less than in 1964 and 32 million below the 1959 and 1960 average. Farmers signed up to divert a record 36.7 million acres of feed grains to soil-conserving uses this year.

Domestic use of feed grains in 1964-65 is expected to total about 132 million tons, close to the level of the past 2 years, while exports are expected to reach a record high of around 20 million tons. Total disappearance in 1965-66 is expected to equal and may be a little above this year's level. In this event, the 1965 crop as indicated in July, would be a little below total requirements, resulting in a further decline in carryover stocks at the close of the 1965-66 marketing year.

The corn supply for 1965-66 is estimated at about 5.0 billion bushels, about equal to last year's supply but 9 percent below the 1959-63 average. The 1965 crop, estimated on July 1 at 3,912 million bushels, would be 10 percent above a year earlier, but this is expected to be about offset by a reduction in the carryover to about 1,100 million bushels at the end of the current marketing year, 410 million less than on October 1, 1964.

The total supply of oats for 1965-66 is estimated at a little under 1.2 million bushels, slightly smaller than last year, while the barley supply of about 480 million bushels, is down nearly 12 percent. Supplies of both of these grains have been declining in recent years; the 1965-66 supplies are well below the 5-year average. The first official estimate of sorghum grain production will be made in August.

Prices received by farmers for feed grains during October-June averaged 6 percent higher than a year earlier and the highest since 1956-57. The higher prices resulted from the smaller 1964 crops and higher loan rates for feed grains. Expected larger production, together with lower loan rates, may result in prices averaging a little lower this fall and winter than a year earlier. This will depend to a considerable extent, however, on the final outcome of 1965 crops.

CCC sales of feed grains in 1965-66 will be made on the same basis as in the past 2 years. Sales of feed grains against the certificate pool cannot be made at less than the loan rate plus carrying charges. The 1965 loan rate for corn will be \$1.05 per bushel, 5 cents lower than in 1964. The sorghum grain loan is \$1.65 per bushel, 12 cents less than last year, while the loan on oats of 60 cents per bushel is down 5 cents, and the barley loan of 80 cents per bushel is 4 cents lower. The quantity of 1964-crop feed grains placed under price support has dropped sharply to 9.3 million tons, largely because of the smaller 1964 crops and higher prices.

Oilseeds, Fats and Oils

Soybean prices to farmers advanced from \$2.55 per bushel last October to \$2.85 in March-April 1965, then declined to \$2.74 in June. The average for October-June was \$2.72 per bushel compared with \$2.52 a year earlier. Soybean prices are expected to continue fluctuating considerably over the next several months, but the trend probably will be downward. Soybean supplies this summer will be much smaller than a year earlier and crushings and exports will fall off sharply from current rates. Total stocks of soybeans in all positions on July 1, 1965, were 131 million bushels, or about 23 per cent below a year earlier.

Crushings in October-June totaled 369 million bushels, 39 million above a year earlier. The estimate of crushings for the year ending September 30, 1965, remains at about 470 million bushels compared with 441 million in 1963-64. This means that the monthly soybean grind during July-September probably will average around 34 million bushels compared with 37 million in the same period last season. The decline from a year earlier in crushings reflects the limited remaining supply of soybeans.

Based on inspections, soybean exports from October 1, 1964, through July 16, 1965, totaled 179 million bushels, 16 million more than a year ago. This increase is about in line with early-season expectations for around 205 million bushels exported in 1964-65, up from 191 million a year earlier, and represents the entire increase projected for the year ending September 30. Exports will drop off in late summer because of sharply reduced supplies.

The 1965 acreage planted to soybeans is estimated at 35.6 million, 12 percent more than the previous record acreage of 31.7 million in 1964. Increases occurred in nearly all producing States. Farmers plan to harvest 34.7 million acres for beans, up 13 percent from 1964. The soybean crop is in good condition in the North Central Region. Wet weather delayed planting in most States. The first forecast of yield and production for the 1965 crop will be in the August crop report.

Beginning with the August issue of the Fats and Oils Situation (for release August 20, 1965), soybean supply and disposition statistics will be published for the marketing year beginning September 1. The marketing year formerly started October 1. The USDA announced June 15 that total stocks of soybeans (farm and off-farm) will be reported as of September 1 instead of October 1. There has been a continuing trend toward earlier harvest, with a considerable amount of the new crop harvested in September. Furthermore, a varying amount of new-crop beans has been crushed and exported each year prior to October 1. The shift to a September 1 basis should make for a more accurate accounting of the utilization of old-crop soybeans before the new crop is harvested. The August FOS will present a special article on the implications of shifting the U. S. soybean marketing year to September 1. It will include revised soybean supply and disposition data for the twelve-year period, 1953-64.

Fruit

The 1965 U. S. deciduous fruit crop will be down slightly from the record 1964 crop but a tenth above the 1959-63 average if July 1 production prospects materialize. Although total supplies of fresh deciduous fruits will be seasonally large during late summer and early fall, supplies of some items, especially Bartlett pears, will be noticeably smaller than a year earlier. Supplies of processed fruits are expected to continue large because of increased season-end stocks and prospective large packs. Price increases over 1964 have occurred for sweet cherries and strawberries and are indicated for 1965-crop pears, production of which is down considerably.

Record crops of grapes and fresh plums are in prospect this year. Larger crops than last year also are indicated for peaches, apricots, and California dried prunes. California nectarine production is expected to equal the record 1964 tonnage. But lighter crops are indicated for apples, pears, cherries, Pacific Northwest prunes, and strawberries. Reductions are the greatest in the Pacific Coast States, due largely to unfavorable winter and spring weather, and in Michigan.

Output of processed deciduous fruits is expected to be large in 1965-66. However, the canned and frozen packs are unlikely to reach the record set in 1964-65. Reductions from a year ago probably will be the largest for canned pears, cherries, and fruit cocktail, and for frozen cherries and strawberries. But the packs of dried prunes and raisins may be up. On June 1, as the new season for processing deciduous fruits was starting, packers' stocks of most canned and frozen items were moderately to substantially larger than a year earlier.

Prospective production of almonds, filberts, and walnuts is 2 percent below 1964 but 17 percent above average. Moderate decreases in walnuts and filberts more than offset a small increase in almonds. The first forecast of the 1965 pecan crop will be released in the August crop report.

Remaining supplies of 1964-65 crop California-Arizona Valencia oranges and lemons are somewhat larger than a year ago. In early July, shipping-point prices for oranges were moderately to considerably lower, and for lemons moderately higher, than year-earlier prices. Harvest of Florida oranges and grapefruit was practically completed by July 1. Citrus production was 23 percent above the 1963-64 crop but 2 percent below average. Prospects for the 1965-66 citrus crop were generally good in mid-July.

Resulting from the heavier 1964-65 citrus crop, output of principal Florida processed citrus items has been much larger this season than in 1963-64. The pack of frozen concentrated orange juice was about two-thirds above the 1963-64 pack and second only to the record in 1961-62, just before the December 1962 freeze damaged citrus fruit and trees. Florida packers' stocks of all major frozen and canned items in early July were up substantially from a year earlier. Retail prices for leading items were down from a year ago.

Commercial Vegetables

Fresh--Harvests of most fresh vegetables are near their usual seasonal peaks, and supplies generally are expected to remain abundant through the summer. Early reports indicate an aggregate tonnage slightly above last year, although 2 percent below average. The increase over last year is due mainly to better prospects so far in several Eastern and Midwestern States, where drought curtailed output in 1964. Among leading commodities, cabbage and carrot production likely will be substantially above a year ago, and the supply of tomatoes may be up moderately. Slight increases are indicated for celery and sweet corn. However, the summer snap bean crop is off slightly from last year, and lettuce production is down moderately. With supplies generally ample, prices will be seasonally low the next 6 to 8 weeks, probably averaging below year-earlier levels.

Melon marketings are expected to continue in peak volume through August, then decline rapidly during September. Water melon supplies are larger than a year earlier and prices are expected to continue lower. Cantaloup output is expected to be substantially below average because of much less acreage in California, where normally two-thirds of the summer cantaloup crop is grown.

Processed--Through summer, supplies of both canned and frozen vegetables will continue below year-earlier levels. Although carryover stocks of canned tomato items were a little larger than in mid-1964, stocks of all other major canned vegetables were smaller, and aggregate carryover was down about a tenth. Frozen vegetable carryover stocks also were down considerably from a year ago, and although the new packing season is under way, current supplies are moderate. Cold-storage holdings July 1 (excluding potatoes) totaled 635 million pounds compared with a 1961-63 average of 663 million pounds.

Early reports indicate 1965 production of vegetables for processing may total about the same as last year, with reductions in tomatoes, beets, spinach, and possibly cucumbers for pickling offsetting increases in all other commodities. Based on carryovers and prospective packs, supplies of processed tomato items in the 1965-66 season likely will be down moderately from last season. There also may be less spinach, asparagus, beets, and pickles. Sweet corn supplies probably will about equal those of a year earlier, and supplies of all other items will be up. Frozen vegetable supplies likely will be much above last season, with supplies of snap beans, corn, and peas particularly large.

Potatoes and Sweetpotatoes

Supplies of potatoes for summer marketing are larger than a year ago. The early summer crop, at 11.3 million hundredweight, is slightly less than in 1964. But late summer output, marketed in volume by early August, is estimated at 311 million hundredweight versus a small 27.6 million in 1964. Larger crops in Washington, California, Wisconsin, and New Jersey account for most of the increase. Despite expected heavier late summer tonnage, prices probably will average above a year earlier because of stronger demand, particularly by processors. Use of potatoes for chips continues to expand; use for freezing has risen sharply. Stocks of frozen French Fries amounted to 175 million pounds on July 1, compared with 247 million a year earlier, and relative to current disappearance, stocks are low. Fall crop acreage is up 8 percent from 1964, and with average yield, production will be up sharply.

Only a few sweetpotatoes will be available through the summer. But by early fall, supplies likely will be ample, with shipments above the light volume of a year earlier. Production this year is up an estimated 8 percent from the small crop in 1964 due to larger acreage and expected better yields in nearly all States.

Dry Beans and Peas

Mostly in response to high prices for last year's crop of dry edible beans, growers increased acreage 7 percent this year. Better yields are expected, boosting production 16 percent above last year. Although carryover this September 1 will be relatively light, supplies in the 1965-66 marketing season likely will be much heavier than last season, with consequent pressure on prices.

Although still low, prices for dry peas have increased sharply in recent months due to an anticipated cut in output. The 1965 crop is estimated at 3.8 million hundredweight, more than a fifth smaller than last year.

Cotton

Disappearance of upland cotton during the 1965-66 crop year (August 1, 1965-July 31, 1966) is estimated at 13.5 million bales, up 0.4 million from the expected total for 1964-65. Small increases are estimated for both domestic use and exports. Although the initial payment-in-kind rate for 1965-66 has been reduced from a year earlier by 0.75 cent to 5.75 cents per pounds, the support rate for the 1965 crop of Middling 1-inch cotton has been lowered 1.00 cent from a year earlier to 29.00 cents per pound.

Mill consumption of upland cotton during 1965-66 is estimated at 9.3 million bales--0.2 million more than that estimated for 1964-65 and the highest since 1952-53 when it was 9.4 million. The continued large consumption indicated for 1965-66 stems from expectations for a further advance in general economic activity and for further gains for U.S. cotton in the domestic market because of its improved competitive price position.

U.S. exports of cotton during 1965-66 are estimated at 4.2 million bales, slightly above the 4.0 million estimated for 1964-65. This expected increase is due to a continuation of the upward trend in foreign free-world consumption which probably will more than offset a further increase in foreign free-world production. However, U.S. exports may be limited by a further working down of stocks abroad during 1965-66.

Planted acreage of upland cotton is estimated at 14.1 million acres, down about 4 percent from 1964. The upland cotton allotment of 16.2 million acres for the 1965 crop is the same as for 1964. The reduced acreage for 1965 reflects greater participation in the domestic allotment program. Cotton producers signed up to remove about 1.0 million acres from production in 1965 under this program, up from about 0.5 million acres taken out of production in 1964.

For the 1965 crop, producers planting within their domestic allotments are eligible for a price-support payment of 4.35 cents a pound on the normal yield per acre for the farm, times the acreage planted for harvest. (The domestic allotment represents about 65 percent of the regular effective allotment.) In addition, they are eligible for price-support loans, 29 cents per pound for Middling 1-inch cotton at average location, on their entire production. For the 1964 crop, the support price for Middling 1-inch cotton was 30 cents per pound, while the price-support payment rate was 3.50 cents per pound.

Producers on farms with allotments of 15 acres or less are eligible for the additional price-support payment in 1965, as in 1964, and are not generally required to reduce their plantings. There are about 370,000 of these small farms out of a total of slightly more than 600,000 farms.

The 1965 crop was making good progress in most areas as of July 1. The first official estimate of acreage for harvest and of cotton production for 1965 will be in the cotton report to be released August 9.

Carryover of upland cotton on August 1, 1965, is estimated at 14.2 million bales. This is up about 2 million bales from a year earlier and the highest level since the record-high 14.4 million-bale carryover in 1956. The carryover increased because of a decline in disappearance during 1964-65 and a large 1964 crop, which resulted from record-high yields. Although mill consumption rose from 8.5 million bales in 1963-64 to 9.1 million in 1964-65, exports during the same period fell from 5.7 million bales to around 4.0 million.

An improved competitive price position in the domestic market and a high level of general economic activity stimulated cotton mill use during 1964-65. However, exports declined because of record production in foreign countries and a working down of stocks in importing countries. Prospects for U.S. exports weakened during the latter months of 1964-65 because of uncertainty pending the outcome of new legislation, which could affect future marketing of U.S. cotton in world markets.

Tobacco

In the year ended June 30, 1965, U. S. smokers consumed an estimated 533 billion cigarettes, nearly 5 percent more than in 1963-64 when, following the smoking and health report (January 11, 1964), there was a short-term decline. The estimated 1964-65 figure is 3 percent above the previous fiscal year high of 1962-63 and about 2 percent above the calendar year record of 1963. The increased consumption reflects a population gain in the smoking-age brackets and probably the resumption of cigarette smoking by some who had quit smoking or who had turned to pipes and cigars following the smoking and health report. The 1964-65 output of cigarettes was estimated at 562 billion--nearly 5 percent above 1963-64 and about $3\frac{1}{2}$ percent above 1962-63.

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The Congress has enacted a bill requiring a cautionary label on cigarette packages, effective January 1, 1966. The bill also contains a provision, terminating July 1, 1969, that no statement with respect to smoking and health shall be required in cigarette advertising.

Cigar and cigarillo consumption in the year ended June 30, 1965, was estimated at over 9 billion--9 percent more than in 1963-64. This was more than in any previous fiscal year and only a little less than the calendar year 1964 high. Consumption of smoking tobacco in 1964-65 was estimated at about 75½ million pounds, down 7 percent from 1963-64, when there was an upsurge following the smoking and health report. The 1964-65 estimated consumption, however, was still larger than in other recent years. Output of chewing tobacco was estimated at 66 million pounds, slightly below the 4-year high of 1963-64. Manufacture of snuff, estimated at about 30 million pounds, was 6 percent below 1963-64 and a long-time low.

On May 4, 1965, growers of flue-cured tobacco--the kind that accounts for about half of the tobacco consumed domestically and about four-fifths of U. S. tobacco exports--voted nearly 3 to 1 to place an acreage-poundage program in effect on their 1965, 1966, and 1967 crops. This program for tobacco was authorized by a new law passed in April. Burley and most other kinds continue under the acreage allotment program for the 1965 crop; growers of these kinds of tobacco could adopt the acreage-poundage program in 1966 or later years.

The July 1 indication for 1965 production of all types of tobacco combined, at 2,002 million pounds, is 10 percent below 1964. Acreage for harvest is estimated at 9 percent below last year. The indicated 1965 flue-cured crop is 16 percent smaller than in 1964. Under the new acreage-poundage program for flue-cured, the 1965 national poundage marketing quota was set at a level to provide a needed downward adjustment in the total supply, and marketings of flue-cured tobacco in 1965 will be considerably less than in 1964. However, with a record carryover, the supply for 1965-66 will be second only to the peak level of 1964-65.

The 1965 burley crop is indicated to be virtually the same as in 1964, despite a 10 percent cut in allotments. The prospective average yield per acre matches the 1963 high. This year's indicated production, added to an expected record carryover, will provide a record-high supply for 1965-66.

Auction markets for flue-cured tobacco in Georgia and Florida--the southernmost belt--opened July 28. Markets in South Carolina and Border North Carolina open August 5. Other markets in North Carolina and those in Virginia open later in August and September.

The Government overall price support level for 1965 flue-cured tobacco is 57.7 cents a pound--0.5 cent higher than in 1964. As in the 1962-64 seasons, price support will be available this year on untied flue-cured of certain designated grades for a limited number of days in markets of belts that traditionally have sold only tied tobacco. Price-support rates on tied tobacco will be 3 cents a pound higher than for untied tobacco. For the past 4 years,

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this differential was 6 cents, but during these years the difference between the average market prices of tied and untied flue-cured tobacco narrowed considerably.

Auction sales of the 1964 crop of Maryland tobacco ended July 9. The season average auction price was 61.8 cents a pound--45 percent above the previous year. The substantially higher prices of the past season reflected the much better quality of the 1964 crop than the drought-affected 1963 crop. About 11 percent of market deliveries were placed under loan, compared with 37 percent last season and 18 percent the season before. The 1965 indicated crop of Maryland is 37.4 million pounds--about $3\frac{1}{2}$ million less than estimated 1964 production.

July 1 indications were for moderate reductions from last year for crops of fire-cured, dark air-cured, and Connecticut binder tobaccos, but small to moderate increases for Wisconsin binder, Ohio filler, and the shade-grown cigar wrapper types; no change is indicated for Pennsylvania filler.

U. S. exports of unmanufactured tobacco in the year ended June 30, 1965, are estimated to have declined about 7 percent below 1963-64. U. S. exports in 1965-66 are expected to be moderately above a year earlier. With an improvement in the quality of this year's crop, flue-cured exports may show a significant gain over 1964-65, when they were second lowest in 5 years.